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C O N F I D E N T I A L SECTION 01 OF 03 BUENOS AIRES 001490

SIPDIS

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TAGS: [EFIN](#) [ECON](#) [PREL](#) [PGOV](#) [AR](#)

SUBJECT: METLIFE EXEC FORESEES DIRE CONSEQUENCES FOR  
ARGENTINE ECONOMY ABSENT RAPID CONGRESSIONAL APPROVAL OF  
PENSION NATIONALIZATION

REF: A. BUENOS AIRES 1475

[1](#)B. BUENOS AIRES 1466

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

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Summary  
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[1](#)1. (C) MetLife's head of Latin American operations, Oscar Schmidt (PROTECT), told Ambassador Wayne October 28 that he expected major economic upheaval in Argentina if the Argentine Congress fails to achieve rapid passage of the GoA's bill to nationalize the private pension system. The longer and more contentious the debate becomes, and the more the economy deteriorates in the mea>JHg>;ners ability to govern. While Schmidt expects Congressional passage within a month or so, he hopes for changes to the GoA's bill that will allow some continuation of the private system, reduce litigation concerns, and open the door for appropriate compensation to the pension funds. While the AFJPs refuse to discuss details of compensation until the final outcome becomes clearer, the GoA's suggested compensation levels to date are less than a third of the \$150 million Met considers "fair value." In the face of judicial raids, audits, and intimidation tactics, Schmidt requested discreet U.S. assistance to send a signal to the GoA that U.S. companies should not be singled out for judicial pressure. End Summary.

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Rapid Congressional Passage Vital to Stability  
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[1](#)2. (C) Schmidt emphasized that the key to whether the GoA's nationalization of the private pension funds (AFJPs) will be successful is the timing of Congressional passage. He argued that Congress must pass the GoA's bill within just a few weeks to give the GoA and Argentine Central Bank (BCRA) the space to intercede to stabilize markets, thereby ending the great uncertainty that led local stock and bond markets to plunge following the GoA's announcement of the nationalization on October 21 (see reftels for background).

[1](#)3. (C) However, he speculated, if the debate in Congress is extended, the economic situation could deteriorate to the point where the AFJP nationalization would be a minor issue, and the Kirchners would be fighting for their political

lives. The uncertainty factor for Congress has little to do with public opposition to the nationalization, and everything to do with the state of financial markets, according to Schmidt.

¶4. (C) Schmidt acknowledged that this issue does not have same resonance with the public (or with members of Congress) as the agricultural crisis last spring (which culminated in mid-July with Congress rejecting the GoA's bid to raise export taxes), so the country is not experiencing a similar level of social protest. In fact, Schmidt noted, this comes across as just a dispute between the GoA and a bunch of publicly unpopular financial companies.

¶5. (C) Therefore, he asserted, the issues to monitor are capital outflows from the financial system and the exchange rate. Worries about a hard landing are increasing, with many economists now predicting recession in 2009, and this has prompted Argentines to withdraw deposits and buy dollars in droves. (Comment: The BCRA is struggling to maintain a stable exchange rate, with the peso weakening from about 3.29 pesos/dollars on October 27 to 3.44 pesos/dollars October 29.

This prompted the BCRA to intervene with a massive \$1 billion purchase mid-day October 29, stabilizing the exchange rate at 3.37 pesos/dollars.) However, Schmidt stated that the market pressures are unrelenting, because both depositors and bank executives have calculated that the banks could be the GoA's next target. This is a frequent preoccupation raised during his regular conversations with other foreign bankers, Schmidt said.

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¶6. (C) The vicious circle, according to Schmidt, is that the longer it takes Congress to act, the more local markets will deteriorate, thus leading to more uncertainty over the direction of the economy, and likely emboldening opposition in Congress, and thus raising the possibility of even further delay. Two to three months of capital outflows at current levels and the AFJPs could be negotiating with a different leadership, Schmidt commented.

¶7. (C) Schmidt agreed that GoA officials were completely surprised by the negative reaction of local markets, and relayed the details of an interesting conversation between Cabinet Chief Sergio Massa and Council of the Americas President Susan Segal. (Schmidt called her a close friend, and said he was trying to work through her to send messages to the GoA.) Massa reportedly told Segal that the GoA had expected the market reaction to be positive, because "they were restoring government solvency." When Segal expressed incredulity at this statement, Massa apparently asked, "What do we do now?" She suggested the GoA immediately work to reassure the public that the GoA will manage the funds responsibly and will not abuse its equity ownership position of local companies. Schmidt found it interesting that the GoA has given exactly these public reassurances in recent days.

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Congressional Passage Likely, But End Result Uncertain  
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¶8. (C) The Ambassador noted that the GoA is clearly pursuing a full-court press to push the bill through Congress in 2-3 weeks, and that most of Post's contacts believe passage is likely, albeit with modifications. He said he had lunched with a pro-government Senator and Deputy on October 28, both of whom agreed confidently that the government had the votes to win. Schmidt agreed that the bill should pass the Chamber of Deputies easily, if only "because they have purchased the votes." However, he said the real question is whether the Senate (and the Provincial Governors, who have sway over their provincial Senators) will choose to challenge the Kirchners.

¶9. (C) Again, he argued, the issue is timing. The longer and

more contentious the debate becomes, and the more the economy deteriorates in the meantime, the greater the likelihood of increasing Congressional opposition. He pointed out that when the Kirchners lost the Congressional battle over export tax increases in July, the price of soy (Argentina's top export) was near its historical record at over \$600/ton and the world and local economies were experiencing slower growth, but not outright crisis and panic selling of assets. Now, with soy trading at \$340/ton, in the midst of global and local economic crises, and the Kirchners less politically powerful than in the past, Schmidt believes the outcome of the Senate battle is less clear.

¶10. (C) Schmidt sees three alternatives. The first two are (1) quick approval with minimal changes, or (2) outright rejection, and they are highly unlikely to occur. The third and more likely scenario (with a 60-70% probability, according to Schmidt) is that Congress will insist on modifications to make it a more reasonable law and will pass it in a month or so.

¶11. (C) Schmidt suggested a possible modification that would go a long way towards addressing/ameliorating many of the potential legal consequences of the expropriation of the AFJPs' businesses. Allowing contributors the option to choose to return to AFJPs, following the initial nationalization, would enable the continuation of a reduced private pension system, would likely reduce the volume of litigation (both from contributors and from AFJPs), and would open the door to discussing appropriate compensation to fund management companies, including Met Life.

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Current GoA offers of Compensation Don't Cut It  
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¶12. (C) At this point, the GoA has made vague mention of compensation at the level of AFJPs' "social" capital stock, which for Met would be around \$40 million. However, Met thinks its sale or fair value is closer to \$150 million, but also argued that Met would expect to receive an additional \$10 million to cover costs of liquidation (e.g., severance pay). The other aspect of compensation, Schmidt said, has to do with the other side of the AFJPs' business: annuities.

¶13. (C) Basically, he said, the GoA has taken the profitable, fee-based pension fund business, and left them with the problematic annuities business. The annuities businesses has been a money loser for AFJPs for some time, a fact compounded by the Argentine Supreme Court's recent decision requiring AFJPs to pay out benefits in dollars even though their underlying assets were "pesified" following the 2001 financial crisis. This has increased AFJPs liabilities. Meanwhile, by law they have been forced to invest in Argentine financial instruments, which are "currently trading at default levels." Schmidt said that eventual settlement talks will need to take the annuities side of the AFJP business into account. (Comment: Indeed, Schmidt has noted in past talks with Emboffs that the GoA may see this as a bargaining chip during negotiations over compensation, i.e., the GoA could offer to take over the annuities as well, lowering overall compensation paid.)

¶14. (C) Until the dust settles in Congress, AFJP senior management does not want to be seen with the GoA and are sending their middle management to meetings with the Pension Fund Secretariat. (Schmidt noted with irony that the Pension Fund Secretariat is already ordering around the AFJPs, e.g., forcing them to repatriate foreign assets and refrain from buying dollars, as if Congress had already approved the bill.) When it becomes clearer how the bill will play out in Congress, the AFJPs will consider how to approach the GoA to negotiate a settlement.

¶15. (C) According to Schmidt, Met asks the U.S. not to intervene on the merits of Met's situation, as there is still too much uncertainty and it could backfire by making Met a target for GoA reprisals. However, Schmidt noted that Argentine Federal Judge Claudio Bonadio last week ordered raids and audits on all AFJPs, and alleged that Bonadio and GoA officials were using these intimidating tactics, leaking information to the press, and making threats about arresting AFJP executives, in order to pressure them into submission.

¶16. (C) Ambassador noted an October 28 "Critica" (opposition daily) article stating that MetLife is considered one of the AFJPs that could be most troublesome to the GoA (along with "Origenes," owned by ING). Schmidt responded that most AFJPs -- including Met and ING -- want to aggressively oppose the nationalization. However, HSBC and BBVA Banco Frances worry the GoA will target their domestic banking operations, and so would prefer a "quiet exit." This has caused internal tension among AFJPs.

¶17. (C) The question, he said, is whether the Judge will cross the line and imprison a high-level AFJP executive. Therefore, Schmidt noted, it would be useful for the USG to highlight to the GoA that there are U.S. company interests affected by the nationalization initiative (Met and NY Life -- minority partner in HSBC), and delicately point out to GoA that, especially in light of the upcoming November 15 G-20 Summit in Washington that President Kirchner will attend, it would not send the right signal to single out U.S. company executives for judicial pressure (and possible imprisonment).

(Comment: Post will look for opportunities to make these points in the near future, particularly with Sergio Massa and his closest advisors. Ambassador already raised U.S. concerns with BCRA President Redrado October 27 -- septel.)  
WAYNE